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ARIZONA CORPORATION COMMISSION

October 25, 2005

Re: Unplanned Outages at Palo Verde; Approval of APS' Power Supply Adjustor
Docket No. E-01345A-03-0437 and Docket No. E-01345A-05-0526

Dear Colleagues:

I have read both Commissioner Mundell's and Commissioner Mayes' letters regarding the unexpected outages at Palo Verde Nuclear Generating Station this summer. I concur that cost recovery and the potential impacts on ratepayers are important topics. However, my view is that the operational integrity of Palo Verde merits higher consideration at this point.

Palo Verde, the nation's largest nuclear power plant, is located near one of the largest population centers in the West. In the last 12 months, the plant has experienced a number of unplanned outages. As you know, Palo Verde has been operational for nearly two decades and is currently undergoing a number of improvements, including the replacement of the steam generators.

With age, the likelihood of equipment failure caused by a number of factors, including thermal and mechanical stresses, obviously increases. I understand that older generating units have a different set of maintenance issues than newer plants. I am interested in knowing what kinds of maintenance (corrective, preventative and predictive) APS has scheduled for Palo Verde. More importantly, I would like more information on emergency contingency plans for the Valley relating to a major incident at Palo Verde.

I would like to invite the NRC to participate at the Special Open Meeting. The NRC could speak to the string of outages at Palo Verde this year and answer questions regarding the efficacy of APS' emergency systems, including whether the plant's operational integrity has been compromised. I recognize, however, such participation may not be possible.

In Direct Testimony filed on September 30, 2005, Steve Wheeler, Executive Vice President at APS, made an assurance to the Commission: that APS, in its current PSA surcharge request, would not seek recovery of the costs related to Palo Verde outages since April 1, 2005. Mr. Wheeler explained that APS would pursue full recovery of appropriate Palo Verde costs in a later proceeding.

Further reinforcing APS' original position, Mr. Wheeler submitted a letter on October 24, 2005 stating that Palo Verde costs would not be sought in this PSA surcharge request. Moreover, the Commission Staff acknowledges the importance of this issue. Ernest Johnson, Director of the Utilities Division, recently issued a memo informing Commissioners that Staff will undertake a prudence review of Palo Verde power replacement costs sought through the PSA.

In light of these developments, I believe it is premature for us to hold a Special Open Meeting on Palo Verde cost recovery before APS has even filed such a request or before Staff has concluded its prudency review. The Commissioners will then have ample opportunity to question APS about the prudency of replacement power and how much of the costs should be borne by the ratepayers.

Over the last decade, Palo Verde has operated with an exceptional overall safety record, having few unexpected shutdowns and only minor problems reported to the NRC. It has become increasingly obvious that the power from Palo Verde is critical for Arizona, in terms of producing plentiful electricity, of improving air quality, and of moderating the average cost of electricity for Arizona ratepayers.

As a proponent of nuclear energy, I would like to make certain that the commitment to excellence in safety continues in the future. At this point, I believe the Commission will better serve the public interest by addressing the issues related to ensuring Palo Verde's safe and continuous operations. With respect to the timing of the Special Open Meeting, I would ask my colleagues not to schedule a meeting that would conflict with the upcoming hearings on APS' Plan of Administration and PSA surcharge application.

Yours truly,

A handwritten signature in cursive script that reads "Jeff Hatch-Miller". The signature is written in dark ink and is positioned above the printed name and title.

Jeff Hatch-Miller
Chairman

CC: Lyn Farmer
Chris Kempley
Ernest Johnson
Brian McNeil
Parties to the Docket